

**NORA SPRINGS-ROCK FALLS
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2005 Election)

Gary Dockum	President	2007
Nancy Lund	Vice President	2005
Brad Shanks		2006
Lori Treloar		2006
Troy Frank		2005

(After September, 2005 Election)

Gary Dockum	President	2007
Nancy Lund	Vice President	2008
Brad Shanks		2006
Lori Treloar		2006
Dave Luett		2008

SCHOOL OFFICIALS

Todd Lettow	Superintendent
Janice Schmitt	District Secretary/ Treasurer

Independent Auditor's Report

To The Board of Education of the
Nora Springs-Rock Falls Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Nora Springs-Rock Falls Community School District, Nora Springs, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Nora Springs-Rock Falls Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 7, 2006 on our consideration of Nora Springs-Rock Falls Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 32 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Nora Springs-Rock Falls Community School District's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report. The financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

August 7, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Nora Springs-Rock Falls Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,436,707 in fiscal 2005 to \$3,501,444 in fiscal 2006, while General Fund expenditures increased from \$3,336,371 in fiscal year 2005 to \$3,464,634 in fiscal 2006. The District's General Fund balance increased from \$344,317 in fiscal 2005 to \$383,157 in fiscal 2006, a 11% increase.
- The District received \$41,657 in a federal Small Rural Schools Achievement Grant as part of the Rural Education Achievement Program.
- The District's Certified Enrollment dropped from 424.0 students in September 2004 to 412.0 students in September 2005.
- The amount of local option sales tax collected decreased from \$280,309 in fiscal 2005 to \$263,269 in fiscal 2006.
- Expenses increased four percent from FY2005 to FY2006. This is in line with normal payroll increases. Payroll accounts for approximately 80% of the General Fund budget.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the general purpose financial statements and required supplementary information.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Nora Springs-Rock Falls Community School District

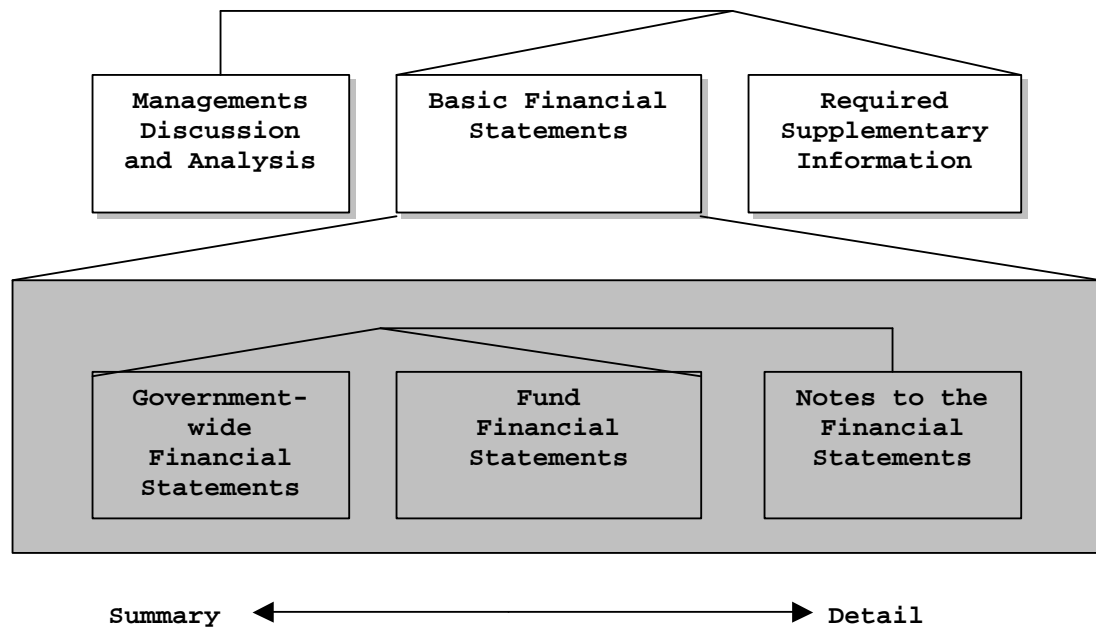


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain the remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses; food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- **Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- **Business type activities:** The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects and Debt Service Fund. Most of the District's basic services are included here, such as regular education, special education, building and grounds maintenance, transportation, and administration. Most of these activities are funded with property taxes and state aid finance.

- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has two Enterprise Funds, the School Nutrition Fund and Child Care Fund.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trusts.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total School District		Percentage Change
	2006	2005	2006	2005	2006	2005	2005-2006
	\$	\$	\$	\$	\$	\$	
Current assets	2,313	2,277	23	9	2,336	2,286	2.19%
Capital assets	2,133	2,262	1	1	2,134	2,263	-5.70%
Total assets	<u>4,446</u>	<u>4,539</u>	<u>24</u>	<u>10</u>	<u>4,470</u>	<u>4,549</u>	<u>-1.74%</u>
Current liabilities	1,447	1,639	1	11	1,448	1,650	-12.24%
Non-current liabilities	732	685	-	-	732	685	6.86%
Total liabilities	<u>2,179</u>	<u>2,324</u>	<u>1</u>	<u>11</u>	<u>2,180</u>	<u>2,335</u>	<u>-6.64%</u>
Net Assets							
Invested in capital assets, net of related debt	1,533	1,577	1	1	1,534	1,578	-2.79%
Restricted	400	269	-	-	400	269	48.70%
Unrestricted	334	369	22	(2)	356	367	-3.00%
Total net assets	<u>2,267</u>	<u>2,215</u>	<u>23</u>	<u>(1)</u>	<u>2,290</u>	<u>2,214</u>	<u>3.43%</u>

Capital assets decreased 3% as depreciation expense exceeded new purchases. Restricted assets grew by almost 50% primarily due to the increase in the Capital Projects Fund. Unrestricted assets decreased slightly but the District continues to maintain a solvency ratio of 11%. Solvency ratio is arrived at by dividing the ending General Fund balance by General Fund revenues. It is used as an indicator of the District's ability to financial carry on the District's programs. Different sources recommend solvency ratios of 5-15%, thus the District lies in the middle of that range.

Changes in net assets - figure A-4 shows the changes in net assets for the year ended June 30, 2006 and 2005.

Figure A-4						
Change in Net Assets						
(Expressed in Thousands)						
	Governmental Activities		Business-type Activities		Total School District	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	\$	\$	\$	\$	\$	\$
Revenues:						
Program revenues:						
Charges for service and sales	349	363	132	115	481	478
Operating grants, contributions and restricted interest	575	510	70	68	645	578
General revenues:						
Property tax	1,413	1,405	-	-	1,413	1,405
Local option sales tax	263	280	-	-	263	280
Unrestricted state grants	1,533	1,506	-	-	1,533	1,506
Unrestricted investment earnings	16	7	-	-	16	7
Other	18	33	-	-	18	33
Total revenues	<u>4,167</u>	<u>4,104</u>	<u>202</u>	<u>183</u>	<u>4,369</u>	<u>4,287</u>
Program expenses:						
Governmental activities:						
Instruction	2,645	2,399	-	-	2,645	2,399
Support Services	1,001	1,005	-	-	1,001	1,005
Non-instructional programs	-	-	178	184	178	184
Other expenses	469	438	-	-	469	438
Total expenses	<u>4,115</u>	<u>3,842</u>	<u>178</u>	<u>184</u>	<u>4,293</u>	<u>4,026</u>
Change in net assets	<u>52</u>	<u>262</u>	<u>24</u>	<u>(1)</u>	<u>76</u>	<u>261</u>

Property tax and unrestricted state grants account for 67% of the total revenue. The District's expenses primarily related to instruction and support services, which account for 85% of the total expenses.

GOVERNMENTAL ACTIVITIES

Revenues for governmental activities were \$4,167,927 and expenses were \$4,115,508.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5				
Total and Net Cost of Governmental Activities				
(Expressed in Thousands)				
	Total Cost of Services		Net Cost of Services	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	\$	\$	\$	\$
Instruction	2,645	2,200	1,861	1,748
Support Services	1,001	764	993	745
Other expenses	<u>469</u>	<u>238</u>	<u>337</u>	<u>125</u>
Totals	<u>4,115</u>	<u>3,202</u>	<u>3,191</u>	<u>2,618</u>

- The cost financed by users of the District's programs was \$348,989, a decrease of 4% from 2005.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$454,940, a fifteen percent increase.
- The net cost of governmental activities was financed with \$1,413,211 in property tax (1% increase), \$1,533,221 in state foundation aid (2% increase) and \$15,542 in interest income (116% increase).

PROPRIETARY-TYPE FUNDS

Revenues for the District's School Nutrition Fund were \$175,145 and expenses were \$164,108. The revenues include charges for services, contributions, and federal and state reimbursements. A Child Care program was started during Fiscal Year 2003. It is hoped to be an additional attraction to showcase the District. Revenues for the Day Care program were aided by a federal Head Start grant that allowed the program to end the year with a positive balance.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The Nora Springs-Rock Falls Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the fiscal year, its governmental funds reported a combined fund balance of \$2,267,227, a 2 percent increase over last year's ending fund balance of \$2,214,808.

GOVERNMENTAL FUND HIGHLIGHTS

Several factors contributed to the increase of the fund balance in the District's governmental funds. Some of these factors were unexpected; some were deliberately planned.

- The General Fund balance increased by over \$38,000.
- Funding from Local Option Sales Tax accounted for over \$260,000 of additional funds during fiscal Year 2006. Expenses from this fund were primarily for remodeling projects. The increase in the Capital Projects Fund accounted for the majority of the total increase in governmental fund balances.

PROPRIETARY FUND HIGHLIGHTS

School Nutrition Fund net assets held steady. The Child Care Fund ended the year with a positive balance.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

It is the District's practice, as is in most Iowa school district, to budget expenditures at or about the maximum authorized spending. As a result, the District's certified budget should always exceed the actual expenditures for the year.

CAPITAL ASSETS

The District has invested more than \$5 million by the end of fiscal year 2006 in a broad range of capital assets, including school buildings, athletic facilities, kitchen, computers and audio-visual equipment, maintenance equipment, school buses and other vehicles, library holdings, and textbooks. Total depreciation expenses for the year exceeded \$238,000.

LONG-TERM DEBT

The District had total outstanding bonded indebtedness on June 30, 2006, of \$600,000. The principal and interest on the bonds will be paid in full by June 1, 2012. The District makes principal and interest payments annually on these bonds using property tax dollars obtained through a debt service levy specifically for these bonds.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The voters of all three counties have approved the School Infrastructure Local Option sales tax, which will provide funds for property tax reduction and school infrastructure projects affecting the Physical Plant and Equipment Levy Fund, Capital Projects, and Debt Service Funds of the District. This will allow improvement of facilities and equipment without raising property taxes.
- To offset the impact of declining enrollment, the State has provided a budget guarantee provision for districts. This budget guarantee provision is being phased out over a 10 year period. The District will have to continue to carefully monitor its spending in order to maintain adequate funding and programs.
- The District will continue to be required to comply with unfunded and under funded mandates from the federal and state governments such as the federal No Child Left Behind Act and the state Student Achievement and Teacher Quality Initiative. This will require the District to find ways to provide services in the areas of assessment and professional development, which will divert funds from other student service areas.
- Sharing with the North Central Community School District should allow our students better educational opportunities in the future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Todd Lettow, Superintendent, Nora Springs-Rock Falls Community School District, 509 N Iowa, Nora Springs, IA 50458.

Basic Financial Statements

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	805,447	20,584	826,031
Receivables:			
Property tax:			
Current year	24,941	-	24,941
Succeeding year	1,427,330	-	1,427,330
Due from other governments	55,103	-	55,103
Inventories	-	1,863	1,863
Capital assets, net of accumulated depreciation (note 3)	2,133,384	1,130	2,134,514
Total assets	<u>4,446,205</u>	<u>23,577</u>	<u>4,469,782</u>
Liabilities:			
Accounts payable	10,444	-	10,444
Accrued salary and benefits	3,076	249	3,325
Accrued interest payable	2,708	-	2,708
Deferred revenue:			
Succeeding year property tax	1,427,330	-	1,427,330
Federal programs	3,222	-	3,222
Long term liabilities:			
Portion due within one year:			
Early retirement	23,248	-	23,248
Bonds payable	90,000	-	90,000
Portion due after one year:			
Early retirement	108,950	-	108,950
Bonds payable	510,000	-	510,000
Total liabilities	<u>2,178,978</u>	<u>249</u>	<u>2,179,227</u>
Net assets:			
Invested in capital assets, net of related debt	1,533,384	1,130	1,534,514
Restricted for:			
Physical plant and equipment levy	13,671	-	13,671
Debt service	10,958	-	10,958
Capital projects	375,185	-	375,185
Unrestricted	334,029	22,198	356,227
Total net assets	<u>2,267,227</u>	<u>23,328</u>	<u>2,290,555</u>

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business type Activities	
	\$	\$	\$	\$	\$	\$
Functions/Programs						
Governmental activities:						
Instruction:	<u>2,645,071</u>	<u>348,989</u>	<u>435,364</u>	<u>(1,860,718)</u>	<u>-</u>	<u>(1,860,718)</u>
Support services:						
Student services	112,166	-	-	(112,166)	-	(112,166)
Instructional staff services	89,675	-	-	(89,675)	-	(89,675)
Administration services	383,770	-	-	(383,770)	-	(383,770)
Operation and maintenance of plant services	256,758	-	8,141	(248,617)	-	(248,617)
Transportation services	<u>158,759</u>	<u>-</u>	<u>-</u>	<u>(158,759)</u>	<u>-</u>	<u>(158,759)</u>
	<u>1,001,128</u>	<u>-</u>	<u>8,141</u>	<u>(992,987)</u>	<u>-</u>	<u>(992,987)</u>
Other expenditures:						
Facilities acquisition and construction	95,714	-	5,064	(90,650)	-	(90,650)
Long-term debt interest	36,551	-	1,706	(34,845)	-	(34,845)
Long-term debt services	300	-	-	(300)	-	(300)
AEA flowthrough	125,135	-	125,135	-	-	-
Depreciation (unallocated)*	<u>211,609</u>	<u>-</u>	<u>-</u>	<u>(211,609)</u>	<u>-</u>	<u>(211,609)</u>
	<u>469,309</u>	<u>-</u>	<u>131,905</u>	<u>(337,404)</u>	<u>-</u>	<u>(337,404)</u>
Total governmental activities	4,115,508	348,989	575,410	(3,191,109)	-	(3,191,109)

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

	Program Revenues					
		Charges for	Operating Grants, Contributions and Restricted	Governmental	Business type	Total
	Expenses	Service	Interest	Activities	Activities	
	\$	\$	\$	\$	\$	\$
Business type activities:						
Non-instructional programs						
Nutrition services	164,108	109,446	65,699	-	11,037	11,037
Community education	14,140	22,598	4,617	-	13,075	13,075
Total	<u>4,293,756</u>	<u>481,033</u>	<u>645,726</u>	<u>(3,191,109)</u>	<u>24,112</u>	<u>(3,166,997)</u>
General revenues:						
Property tax levied for:						
General purposes				1,128,468	-	1,128,468
Management fund				75,049	-	75,049
Debt service				121,613	-	121,613
Capital outlay				88,081	-	88,081
Local option sales taxes				263,269	-	263,269
Unrestricted state grants				1,533,221	-	1,533,221
Unrestricted investment earnings				15,542	-	15,542
Other				18,285	-	18,285
Total general revenue				<u>3,243,528</u>	<u>-</u>	<u>3,243,528</u>
Change in net assets				52,419	24,112	76,531
Net assets beginning of year				<u>2,214,808</u>	<u>(784)</u>	<u>2,214,024</u>
Net assets end of year				<u>2,267,227</u>	<u>23,328</u>	<u>2,290,555</u>

* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2006

	<u>General</u>	<u>Debt</u> <u>Service</u>	<u>Capital</u> <u>Projects</u>	<u>Nonmajor</u>	<u>Total</u>
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	367,752	8,806	332,318	96,571	805,447
Receivables:					
Property tax:					
Current year	19,911	2,152	-	2,878	24,941
Succeeding year	1,138,436	122,800	-	166,094	1,427,330
Due from other governments	<u>12,006</u>	<u>-</u>	<u>43,097</u>	<u>-</u>	<u>55,103</u>
Total assets	<u>1,538,105</u>	<u>133,758</u>	<u>375,415</u>	<u>265,543</u>	<u>2,312,821</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	10,214	-	230	-	10,444
Accrued payroll	3,076	-	-	-	3,076
Deferred revenue:					
Succeeding year property tax	1,138,436	122,800	-	166,094	1,427,330
Federal programs	<u>3,222</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,222</u>
Total liabilities	<u>1,154,948</u>	<u>122,800</u>	<u>230</u>	<u>166,094</u>	<u>1,444,072</u>
Fund balances:					
Reserved for debt service	-	10,958	-	-	10,958
Reserved for capital projects	-	-	375,185	-	375,185
Unreserved	<u>383,157</u>	<u>-</u>	<u>-</u>	<u>99,449</u>	<u>482,606</u>
Total fund balances	<u>383,157</u>	<u>10,958</u>	<u>375,185</u>	<u>99,449</u>	<u>868,749</u>
Total liabilities and fund balances	<u>1,538,105</u>	<u>133,758</u>	<u>375,415</u>	<u>265,543</u>	<u>2,312,821</u>

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2006

Total fund balances of governmental funds (Exhibit C)	\$ 868,749
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	2,133,384
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(2,708)
Long-term liabilities, including bonds payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(732,198)
Net assets of governmental activities (Exhibit A)	<u><u>\$ 2,267,227</u></u>

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2006

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	1,128,468	121,613	263,269	163,130	1,676,480
Tuition	337,957	-	-	-	337,957
Other	47,110	1,599	5,064	109,526	163,299
State sources	1,847,633	107	-	145	1,847,885
Federal sources	140,276	-	-	-	140,276
Total revenues	<u>3,501,444</u>	<u>123,319</u>	<u>268,333</u>	<u>272,801</u>	<u>4,165,897</u>
Expenditures:					
Instruction:	<u>2,382,924</u>	<u>-</u>	<u>-</u>	<u>149,073</u>	<u>2,531,997</u>
Support services:					
Student services	112,166	-	-	-	112,166
Instructional staff services	89,675	-	-	-	89,675
Administration services	383,770	-	-	-	383,770
Operation and maintenance of plant services	238,588	-	-	44,969	283,557
Transportation services	<u>132,376</u>	<u>-</u>	<u>-</u>	<u>63,515</u>	<u>195,891</u>
	<u>956,575</u>	<u>-</u>	<u>-</u>	<u>108,484</u>	<u>1,065,059</u>
Other expenditures:					
Facilities acquisition and construction	-	-	95,714	-	95,714
Long-term debt:					
Principal	-	85,000	-	-	85,000
Interest	-	36,920	-	-	36,920
Services		300	-	-	300
AEA flowthrough	<u>125,135</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>125,135</u>
	<u>125,135</u>	<u>122,220</u>	<u>95,714</u>	<u>-</u>	<u>343,069</u>
Total expenditures	<u>3,464,634</u>	<u>122,220</u>	<u>95,714</u>	<u>257,557</u>	<u>3,940,125</u>

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2006

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Excess (deficiency) of revenues over (under) expenditures	36,810	1,099	172,619	15,244	225,772
Other financing sources (uses):					
Sale of equipment and materials	<u>2,030</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,030</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	38,840	1,099	172,619	15,244	227,802
Fund balances beginning of year	<u>344,317</u>	<u>9,859</u>	<u>202,566</u>	<u>84,205</u>	<u>640,947</u>
Fund balances end of year	<u><u>383,157</u></u>	<u><u>10,958</u></u>	<u><u>375,185</u></u>	<u><u>99,449</u></u>	<u><u>868,749</u></u>

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2006

Net change in fund balances - total governmental funds (Exhibit E) \$ 227,802

**Amounts reported for governmental activities in the
statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	109,438	
Depreciation expense	<u>(237,992)</u>	(128,554)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceed repayments, as follows:

Issued (early retirement benefits)	(151,135)	
Repayments	<u>103,937</u>	(47,198)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

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Change in net assets of governmental activities (Exhibit B) \$ 52,419

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Combining Statement of Net Assets
Proprietary Funds

Year ended June 30, 2006

	School Nutrition	Child Care	Total
	\$	\$	
Assets			
Cash and pooled investments	13,641	6,943	20,584
Inventories	1,863	-	1,863
Capital assets, net of accumulated depreciation	1,130	-	1,130
Total assets	<u>16,634</u>	<u>6,943</u>	<u>23,577</u>
Liabilities			
Accrued salary and benefits	-	249	249
Total liabilities	<u>-</u>	<u>249</u>	<u>249</u>
Net assets			
Invested in capital assets, net of related debt	1,130	-	1,130
Unrestricted	15,504	6,694	22,198
Total net assets	<u>16,634</u>	<u>6,694</u>	<u>23,328</u>

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Combining Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds

Year ended June 30, 2006

	<u>School Nutrition</u>	<u>Child Care</u>	<u>Total</u>
	\$		
Operating revenue:			
Local sources:			
Charges for services	<u>109,446</u>	<u>22,598</u>	<u>132,044</u>
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	47,732	-	47,732
Benefits	11,012	-	11,012
Services	1,001	-	1,001
Supplies	99,128	-	99,128
Property	5,038	-	5,038
Depreciation	<u>197</u>	<u>-</u>	<u>197</u>
	<u>164,108</u>	<u>-</u>	<u>164,108</u>
Other enterprise operations:			
Salaries	-	12,601	12,601
Benefits	<u>-</u>	<u>1,539</u>	<u>1,539</u>
	<u>-</u>	<u>14,140</u>	<u>14,140</u>
Total operating expenses	<u>164,108</u>	<u>14,140</u>	<u>178,248</u>
Operating income (loss)	<u>(54,662)</u>	<u>8,458</u>	<u>(46,204)</u>
Non-operating revenues:			
Interest on investments	344	106	450
State sources	2,007	-	2,007
Federal sources	<u>63,348</u>	<u>4,511</u>	<u>67,859</u>
	<u>65,699</u>	<u>4,617</u>	<u>70,316</u>
Change in net assets	11,037	13,075	24,112
Net assets beginning of year	<u>5,597</u>	<u>(6,381)</u>	<u>(784)</u>
Net assets end of year	<u><u>16,634</u></u>	<u><u>6,694</u></u>	<u><u>23,328</u></u>

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Combining Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2006

	School Nutrition	Child Care	Total
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of services	109,446	22,598	132,044
Cash payments to employees for services	(63,359)	(13,891)	(77,250)
Cash payments to suppliers for goods or services	(94,034)	-	(94,034)
Net cash provided by (used in) operating activities	(47,947)	8,707	(39,240)
Cash flows from non-capital financing activities:			
State grants received	2,007	-	2,007
Federal grants received	52,445	4,511	56,956
Net cash provided by non-capital financing activities	54,452	4,511	58,963
Cash flows from investing activities:			
Interest on investments	344	106	450
Net increase (decrease) in cash and cash equivalents	6,849	13,324	20,173
Cash and cash equivalents beginning of year	6,792	(6,381)	411
Cash and cash equivalents end of year	13,641	6,943	20,584
Reconciliation of operating income (loss) to net cash used in operating activities:			
Operating income (loss)	(54,662)	8,458	(46,204)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:			
Depreciation	197	-	197
Commodities used	10,903	-	10,903
Decrease in inventory	230	-	230
Increase(Decrease) in accrued payroll and benefits	(4,615)	249	(4,366)
	(47,947)	8,707	(39,240)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:			
Current assets:			
Cash	13,641	6,943	20,584
Total	13,641	6,943	20,584

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received federal commodities valued at \$10,903.

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2006

	Private Purpose Trusts
	<u>Scholarships</u>
	\$
Additions:	
Local sources:	
Miscellaneous	2,500
Total additions	<u>2,500</u>
Deductions:	
Support services:	
Scholarships	2,500
Total deductions	<u>2,500</u>
Change in net assets	-
Net assets beginning of year	<u>-</u>
Net assets end of year	<u><u>-</u></u>

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

Nora Springs-Rock Falls Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the Cities of Nora Springs and Rock Falls, Iowa, and agricultural area in Cerro Gordo, Mitchell and Floyd Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Nora Springs-Rock Falls Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Nora Springs-Rock Falls Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Floyd and Cerro Gordo Counties Assessor Conference Boards.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is used to account for the payment of interest and principal on the District's long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's major proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also maintains a Child Care Fund.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary fund include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used for scholarship payments.

C. Measurement Focus and Basis of Accounting

The government-wide and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Fund include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa and grants from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2006.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures did not exceed any of the budgeted amounts.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

Amortized Cost

Diversified Portfolio	<u>\$966,793</u>
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The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk - The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk - The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Capital Assets

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	<u>38,075</u>	<u>-</u>	<u>-</u>	<u>38,075</u>
Capital assets being depreciated:				
Improvements other than buildings	372,904	-	-	372,904
Buildings	3,302,561	-	-	3,302,561
Furniture and Equipment	<u>1,335,901</u>	<u>109,438</u>	<u>-</u>	<u>1,445,339</u>
Total capital assets being depreciated	<u>5,011,366</u>	<u>109,438</u>	<u>-</u>	<u>5,120,804</u>
Less accumulated depreciation for:				
Improvements other than buildings	305,069	14,916	-	319,985
Buildings	1,291,623	66,051	-	1,357,674
Furniture and Equipment	<u>1,190,811</u>	<u>157,025</u>	<u>-</u>	<u>1,347,836</u>
Total accumulated depreciation	<u>2,787,503</u>	<u>237,992</u>	<u>-</u>	<u>3,025,495</u>
Total capital assets being depreciated, net	<u>2,223,863</u>	<u>(128,554)</u>	<u>-</u>	<u>2,095,309</u>
Governmental activities, capital assets, net	<u><u>2,261,938</u></u>	<u><u>(128,554)</u></u>	<u><u>-</u></u>	<u><u>2,133,384</u></u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities				
Furniture and Equipment	2,359	-	-	2,359
Less accumulated depreciation	<u>1,032</u>	<u>197</u>	<u>-</u>	<u>1,229</u>
Business type activities capital assets, net	<u><u>1,327</u></u>	<u><u>(197)</u></u>	<u><u>-</u></u>	<u><u>1,130</u></u>
Depreciation expense was charged to the following functions:				
Governmental activities:				
Student transportation				26,383
Unallocated				<u>211,609</u>
				<u><u>237,992</u></u>
Business type activities:				
Food service operations				<u><u>197</u></u>

(4) Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

<u>Year Ending June 30,</u>	<u>Interest Rate %</u>	<u>Principal \$</u>	<u>Interest \$</u>	<u>Total \$</u>
2007	5.25	90,000	32,500	122,500
2008	5.30	90,000	27,775	117,775
2009	5.40	95,000	23,005	118,005
2010	5.50	100,000	17,875	117,875
2011	5.50	110,000	12,375	122,375
2012	5.50	<u>115,000</u>	<u>6,325</u>	<u>121,325</u>
Total		<u>600,000</u>	<u>119,855</u>	<u>719,855</u>

(5) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2006 is as follows:

	<u>General Obligation Bonds</u>	<u>Early Retirement</u>	<u>Total</u>
Balance beginning of year	685,000	-	685,000
Additions	-	151,135	151,135
Reductions	<u>85,000</u>	<u>18,937</u>	<u>103,937</u>
Balance end of year	<u>\$600,000</u>	<u>132,198</u>	<u>732,198</u>

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$126,591, \$133,315, and \$121,828 respectively, equal to the required contributions for each year.

(7) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$125,135 for year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(8) Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must be at least 55 years but not more than 63 years of age and must have completed at least 15 years of service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee consists of three parts. One, 100% of the difference between their current Salary Schedule A and the salary for B.A. step 3. Eligible support staff and administrators will receive 30% of their current contract rate. Two, \$100 for each year of service to the District over 15 years. Three, A wellness incentive of 10% of Item One if the employee has accumulated the maximum number of sick leave days at time of early retirement. The District paid \$18,937 in early retirement benefits during the year ended June 30, 2006.

(9) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semi-annual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semi-annual period. ISCAP accounts are maintained for each participating entity and provides monthly statements regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006, is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investment</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2006-06A	6/30/05	6/30/06	\$ <u> - </u>	<u> - </u>	<u> - </u>	<u> - </u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no ISCAP advance activity in the General Fund for the year ended June 30, 2006.

The warrants bear an interest rate and the proceeds of the warrants are invested at an interest rate as shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2005-06A	3.500%	3.903%

(10) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Required Supplementary Information

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Actual	Actual	Actual	Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	2,177,736	132,494	2,310,230	2,304,592	2,304,592	5,638
State sources	1,847,885	2,007	1,849,892	1,864,178	1,864,178	(14,286)
Federal sources	140,276	67,859	208,135	170,000	170,000	38,135
Total revenues	<u>4,165,897</u>	<u>202,360</u>	<u>4,368,257</u>	<u>4,338,770</u>	<u>4,338,770</u>	<u>29,487</u>
Expenditures:						
Instruction	2,531,997	-	2,531,997	2,605,000	2,605,000	73,003
Support services	1,065,059	-	1,065,059	1,075,100	1,075,100	10,041
Non-instructional programs	-	178,248	178,248	179,500	179,500	1,252
Other expenditures	343,069	-	343,069	792,679	792,679	449,610
Total expenditures	<u>3,940,125</u>	<u>178,248</u>	<u>4,118,373</u>	<u>4,652,279</u>	<u>4,652,279</u>	<u>533,906</u>
Excess (deficiency) of revenues over (under) expenditures	225,772	24,112	249,884	(313,509)	(313,509)	563,393
Other financing sources (uses)	<u>2,030</u>	<u>-</u>	<u>2,030</u>	<u>-</u>	<u>-</u>	<u>2,030</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	227,802	24,112	251,914	(313,509)	(313,509)	565,423
Balance beginning of year	<u>640,947</u>	<u>(784)</u>	<u>640,163</u>	<u>899,211</u>	<u>899,211</u>	<u>(259,048)</u>
Balance end of year	<u><u>868,749</u></u>	<u><u>23,328</u></u>	<u><u>892,077</u></u>	<u><u>585,702</u></u>	<u><u>585,702</u></u>	<u><u>306,375</u></u>

See accompanying independent auditor's report.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures did not exceed the amounts budgeted in any of the four functions. The District did not exceed the General Fund unspent authorized budget.

Other Supplementary Information

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2006

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	48,263	36,196	12,112	96,571
Property tax receivable:				
Current year	1,319	-	1,559	2,878
Succeeding year	75,000	-	91,094	166,094
Total assets	<u>124,582</u>	<u>36,196</u>	<u>104,765</u>	<u>265,543</u>
Liabilities and Fund Balance				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	75,000	-	91,094	166,094
Fund balance:				
Unreserved fund balance	<u>49,582</u>	<u>36,196</u>	<u>13,671</u>	<u>99,449</u>
Total liabilities and fund balance	<u>124,582</u>	<u>36,196</u>	<u>104,765</u>	<u>265,543</u>

See accompanying independent auditor's report.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Special Revenue Funds

Year ended June 30, 2006

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	75,049	-	88,081	163,130
Other	4,229	101,530	3,767	109,526
State sources	68	-	77	145
Total revenues	<u>79,346</u>	<u>101,530</u>	<u>91,925</u>	<u>272,801</u>
Expenditures:				
Instruction:	21,465	93,136	34,472	149,073
Support services:				
Administration services	-	-	-	-
Plant operation and maintenance	44,969	-	-	44,969
Student transportation	-	-	63,515	63,515
Other expenditures:				
Facilities acquisition and construction	-	-	-	-
Total expenditures	<u>66,434</u>	<u>93,136</u>	<u>97,987</u>	<u>257,557</u>
Excess (deficiency) of revenues over (under) expenditures	12,912	8,394	(6,062)	15,244
Fund balances beginning of year	<u>36,670</u>	<u>27,802</u>	<u>19,733</u>	<u>84,205</u>
Fund balances end of year	<u><u>49,582</u></u>	<u><u>36,196</u></u>	<u><u>13,671</u></u>	<u><u>99,449</u></u>

See accompanying independent auditor's report.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Athletics	-	8,131	8,043	88
Basketball	500	13,041	13,309	232
Golf	50	2,350	2,393	7
Track	50	2,742	2,018	774
Football	489	9,826	10,282	33
Baseball	600	6,843	6,970	473
Wrestling	910	5,466	5,600	776
Volleyball	1,058	6,190	5,322	1,926
Softball	600	3,607	4,014	193
Concession	-	7,036	6,985	51
Yearbook	4,230	7,098	7,530	3,798
Drama Jox	261	5	-	266
Student Council	1,548	6,451	5,813	2,186
Class of 2006	678	302	980	-
Class of 2007	3,116	91	1,016	2,191
Class of 2008	3,125	52	75	3,102
Class of 2009	2,545	54	75	2,524
Class of 2010	678	412	-	1,090
Class of 2011	1,364	5,060	3,496	2,928
Class of 2012	-	950	-	950
Class Composite Picture	358	107	-	465
Students Jump for Heart	1,164	20	-	1,184
Drama	2,118	2,423	1,997	2,544
Vocal Fund Raising	497	1,616	-	2,113
Band Fund Raising	1,863	11,657	7,218	6,302
Grand total	27,802	101,530	93,136	36,196

See accompanying independent auditor's report.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Revenues

Governmental Funds

	Years ended June 30,			
	2006	2005	2004	2003
	\$	\$	\$	\$
Local sources:				
Local tax:				
Property tax	1,409,546	1,404,583	1,480,964	1,459,337
Local option sales tax	263,269	280,309	195,894	-
Mobile home tax	3,665	556	3,221	3,605
	<u>1,676,480</u>	<u>1,685,448</u>	<u>1,680,079</u>	<u>1,462,942</u>
State sources:				
State foundation aid	1,533,221	1,504,955	1,408,709	1,518,424
AEA flow through	125,135	124,135	125,753	135,602
Instructional support	16,931	17,826	18,158	20,153
Educational Excellence Program:				
Phase I	28,213	27,881	26,837	27,673
Phase II	34,091	34,049	34,535	36,477
Phase III	-	-	-	9,024
Non-public transportation aid	4,507	3,400	3,367	5,650
Vocational education aid	1,181	1,362	1,334	2,770
Iowa Early Intervention Block Grant	24,350	23,686	28,038	25,158
Revenue in lieu of taxes - military credit	1,274	1,336	1,368	1,448
Evaluator training	250	-	1,000	2,000
Teacher mentoring program	7,800	13,000	5,200	3,900
Professional development	15,406	-	-	-
At risk programs	8,790	-	-	-
Teacher quality/salary improvement	46,736	39,447	35,669	31,906
	<u>1,847,885</u>	<u>1,791,077</u>	<u>1,689,968</u>	<u>1,820,185</u>
Federal sources:				
Title I Grants to Local Education Agencies	43,209	40,198	43,779	41,630
Improving Teacher Quality - Grants to States	12,820	12,871	12,817	14,494
Innovative Education Program Strategies	1,082	1,658	2,037	2,317
Safe and Drug Free Schools - States Grant	1,857	-	-	3,740
Special Education - Grants to states	22,430	10,632	17,128	12,101
Rural Education Achievement Program	41,657	41,657	39,922	36,314
Grants for Assessments and Related Activities	5,514	2,754	2,262	2,295
	<u>128,569</u>	<u>109,770</u>	<u>117,945</u>	<u>112,891</u>
Total	<u>3,652,934</u>	<u>3,586,295</u>	<u>3,487,992</u>	<u>3,396,018</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

To the Board of Education of the
Nora Springs-Rock Falls Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Nora Springs-Rock Falls Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 7, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Nora Springs-Rock Falls Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 06-I-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nora Springs-Rock Falls Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Nora Springs-Rock Falls Community School District and other parties to whom Nora Springs-Rock Falls Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Nora Springs-Rock Falls Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

August 7, 2006

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

06-I-A SEGREGATION OF DUTIES

Comment - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged.

Part II: Other Findings Related to Required Statutory Reporting:

- 06-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2006.
- 06-II-B Certified Budget - Expenditures for the year ended June 30, 2006, did not exceed the certified budget amounts in the any of the four functions.
- 06-II-C Questionable Disbursements - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted
- 06-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- 06-II-E Business Transactions - No business transactions between the District and District officials or employees were noted.
- 06-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related to Required Statutory Reporting:
(continued):

- 06-II-G Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.
- 06-II-H Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- 06-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 06-II-J Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.